

STATE OF SOUTH CAROLINA)

VERIFICATION

COUNTY OF UNION)

PERSONALLY appeared before me, Bryan D. Stone, who being duly sworn states:

That he is the Business Manager and Assistant Treasurer of Lockhart Power Company;

that the testimony attached hereto as Testimony of Bryan D. Stone, is based upon

information that he believes to be true and correct.

Bryan D. Stone
Bryan D. Stone

Sworn to before me this
25th day of January, 2007

Deanna Burns
Deanna Burns

My Commission Expires: June 22, 2010

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 **Q. Please state your name, business address, present position and responsibilities.**

2 A. My name is Bryan D. Stone. My business address is Lockhart Power Company, Post
3 Office Box 10, 420 River Street, Lockhart, South Carolina 29364. I am Business Manager
4 and Assistant Treasurer of Lockhart Power Company. In this role I have responsibility for
5 the company's overall performance and management.

6 **Q. Please summarize your educational background and professional experience.**

7 A. I have earned both the Bachelor of Science in Electrical Engineering Degree and the
8 Master of Science in Electrical Engineering Degree from the Georgia Institute of
9 Technology, as well as the Master of Business Administration Degree from the University
10 of Florida. I am a registered Professional Engineer in the state of Florida.

11 I began my professional career in 1990 as a Project Engineer at a 500⁺ employee
12 chemical fertilizer company near Tampa, Florida. My responsibilities involved
13 implementing nearly all electrical and instrumentation ("E&I") projects, including those
14 associated with the approximately 40 MW cogeneration plant used to convert waste
15 process heat to electricity. In 1996 I accepted a similar position at a larger company in
16 rural northern Florida. While my responsibilities were similar in nature, the scope was
17 much larger, since the new employer had 1,200⁺ employees in two chemical complexes
18 (each with its own cogeneration plant) and a mining operation, all within the same county.
19 In 2000, I was promoted to E&I Maintenance Superintendent, with responsibilities for the
20 E&I Maintenance Department, including more than 70 E&I technicians and salaried
21 employees. I had the additional responsibilities of Power Manager, which ultimately
22 included managing well over \$50 million in combined power purchases and sales. In this

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 capacity, I worked with representatives of all classes of customers, utilities, and legislators
2 on a variety of power-related issues.

3 I recently joined Lockhart Power Company ("Lockhart" or "the Company") in
4 April 2006.

5 **Q. What is the purpose of your testimony?**

6 A. My testimony will provide a brief overview of Lockhart. With this overview as a
7 backdrop, I will describe the primary reasons why Lockhart is pursuing a rate adjustment,
8 and the reasoning behind several key aspects of the proceeding including the rate of return
9 per customer class and the cost of equity.

10 **Q. Please provide an overview of Lockhart Power Company.**

11 A. Lockhart Power Company was incorporated in 1912 by an act of the South Carolina
12 legislature. Its service area spans parts of five counties: Union, Spartanburg, Cherokee,
13 Chester and York. It serves approximately 6,400 customers, through the effort of 39
14 employees. In addition, the Company serves one wholesale customer, the City of Union.
15 The company has 18 MW of hydroelectric generation capacity on the Broad River in
16 Lockhart, South Carolina, which is also the location of its business offices. The
17 hydroelectric generation typically satisfies 20-25% of the company's load, and the
18 remainder is purchased primarily from Duke Energy ("Duke") at three separate substation
19 delivery points. Small amounts of power are purchased at avoided cost from a Qualified
20 Facility (QF) and the City of Union.

21 Lockhart purchases power from Duke at a wholesale rate which is based on Duke's
22 cost of service and which has been approved by the Federal Energy Regulatory

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 Commission (FERC). Changes in the monthly purchased power expense above or below a
2 given level due to load, internal hydrogeneration, etc. are passed on to Lockhart's
3 customers via a flow-through purchased power adjustment clause. Purchased power
4 expense is a significant percentage of Lockhart's operating costs.

5 Due to its very small size and limited geographic service area, Lockhart has
6 traditionally had a close relationship with its customers. In fact, a primary factor in my
7 selection as Business Manager was that I was exceptionally customer oriented, due in part
8 to my background representing a large power customer.

9 The first General Manager for Lockhart was hired in 1920, and he is one of only
10 three who have preceded me in the years since. My immediate predecessor was in this
11 position for nearly 30 years (including the period from the last rate case through the
12 current test year), providing a very stable long-term direction for the company. His tenure
13 was marked by a focus on tight cost control, continually improving efficiency, and
14 increasing the capacity and reliability of the company's 100% renewable energy
15 generation portfolio. He also implemented a strategic focus on the core electric utility
16 business, including overseeing the divestiture of telephone, trash, water and wastewater
17 businesses.

18
19 **Q. What are the key drivers behind the need for a base rate adjustment?**

20 **A.** The primary driver is recent significant capital investment in new generation, which will
21 provide both immediate and long-term net economic benefits to our customers. The
22 largest single investment was approximately \$1.8MM to purchase and install three 1,825

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 kW diesel peaking generators. Although the cost recovery for this project will result in
2 increased base rates, this increase will be more than offset, beginning immediately, by a
3 decrease in the customers' purchased power adjustment clause costs. A base rate increase
4 is therefore needed, even though the project provides net economic benefits to the
5 customers.

6 Another large investment is \$350,000 for the purchase of a small (800 kW)
7 hydroelectric generation facility ("Pacolet") in Pacolet, South Carolina. This Qualifying
8 Facility (QF) is currently owned by Milliken & Company ("Milliken", our corporate
9 parent company), which already contracts with Lockhart Power Company to operate and
10 maintain the facility and to purchase all of the generated power. There is currently a
11 binding purchase agreement in place between Milliken and Lockhart, subject to required
12 regulatory approvals by the South Carolina Public Service Commission ("Commission")
13 and the FERC. The purchase price was negotiated to ensure that Lockhart's customers
14 would receive an immediate net economic benefit, as they do with the diesel generation
15 project described above. Also as with the diesel generation project, Lockhart will recover
16 costs through a base rate increase, while benefits that more than offset this base rate
17 increase will flow to the customers through the existing purchased power adjustment
18 clause.

19
20 **Q. Would you please describe other noteworthy aspects of these two generation**
21 **projects?**

22 **A. Diesel Generation Project**

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 The diesel generation project was justified by the net economic benefit it will provide our
2 customers. As previously mentioned, Lockhart purchases 75-80% of its power from Duke
3 Energy. The rate under which it does so includes a demand charge of \$9.80/kW for our
4 power usage during the one hour period each month during which Duke reaches its system
5 peak load (i.e. the 12 CP method). This rate applies to each of Lockhart's three separate
6 delivery points, i.e. each delivery point has its own peak demand subject to the \$9.80/kW.
7 This presents three separate opportunities to consider whether some form of peak shaving
8 would be economical.

9 At one of these delivery points, Lockhart's existing hydroelectric generation is
10 already used for peak shaving. Using real-time access to Duke's system load, Lockhart
11 manages its reservoir level to help ensure it can ramp up to full generation output during
12 Duke's system peak, thereby reducing Lockhart's load at that delivery point. This saves
13 Lockhart's customers close to \$2MM per year in demand charges. At a second delivery
14 point, the City of Union has recently built a diesel generation plant for peak shaving
15 purposes, since much of its load is connected near that point. That leaves the third
16 delivery point, which is where Lockhart built its diesel generation facility.

17 Several aspects related to the economics are worth mentioning. First, during
18 Lockhart's continual efforts to provide power to its customers at the lowest possible rate, it
19 identified an opportunity to provide savings to its customers through additional peak
20 shaving. Once this project was identified, the necessary studies were conducted to ensure
21 the customers would receive a net economic benefit. Second, the \$1.8MM project cost is a
22 significant investment to Lockhart, representing approximately 10% of its total company

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 rate base, and it assumed a corresponding risk by proceeding with the project without
2 guarantee of rate recovery. Third, Lockhart's parent company agreed to forego an entire
3 year's dividend in order to fund the project cost of \$1.8MM. Fourth, it was determined
4 during the preliminary engineering phase that the standard approach of purchasing new
5 diesel generation equipment would result in a project duration of approximately one-and-
6 a-half years, and the total project cost would not provide net cumulative economic benefits
7 until several years afterwards. Lockhart elected to pursue slightly used equipment and
8 aggressively manage the project timeline, and as a result it completed the project in only
9 six months and reduced project costs to provide an immediate net economic benefit. In
10 fact, the diesel generation units were in service by the end of 2006, and have already been
11 operating in January 2007 to reduce our system peak load, to the economic benefit of our
12 customers. Fifth, the diesel fuel and other operating costs will continue to be paid out-of-
13 pocket by Lockhart until the Commission approves cost recovery through this rate case,
14 while the benefits of this generation are currently accruing to our customers. This should
15 save our customers more than \$50,000 per month, with no corresponding cost, until this
16 rate case is approved.

17
18 Pacolet Hydroelectric Generation Plant Purchase

19 Lockhart and Milliken have entered into a binding purchase agreement that is contingent
20 only upon receiving all legally required regulatory approvals and approvals for full cost
21 recovery. See Exhibit BDS-1 for a copy of the Purchase Agreement. The purchase will
22 become effective immediately upon receiving the last of these approvals. As discussed

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 above, there will be immediate net economic benefits to customers, as demonstrated via
2 pro forma calculations presented in testimony by Lockhart's cost of service consultant
3 Charles Parmelee. In addition, these economic benefits should increase over time for
4 several reasons. First, the pro forma calculations used the 2005 average price of the
5 energy component of purchased power to develop the economic benefit of the Pacolet
6 purchase, while the current price is approximately 20% higher, resulting in an understated
7 benefit compared to today's value. As energy prices continue to increase over time, the
8 value of this hydroelectric generation, which has no associated fuel cost, will increase.
9 Therefore, this purchase will act as a hedge against future Duke wholesale rate increases.
10 Second, the Purchase Agreement includes two real options that Lockhart will exercise
11 only if it would be cost-effective to do so. One option is for Lockhart to upgrade the
12 capacity and/or efficiency of the turbine-generator units to generate more power. The
13 other option is for Lockhart to develop an additional hydroelectric generation site at an
14 existing dam approximately one half mile upstream of the Pacolet facility. If either or
15 both of these options are found to be cost-effective and are subsequently pursued, they
16 would produce additional net economic benefits for the customers.

17 **Q. How has Lockhart's total retail revenue requirement changed since the last rate**
18 **case?**

19 A. Expert testimony by Mr. Parmelee is included in this filing that details the approach used
20 to determine Lockhart's retail revenue requirements. Lockhart is requesting a rate
21 increase of 4.4% from its current rates, which were based on a 2001 test year and became
22 effective in November 2002. It is worth noting that a larger adjustment would have been

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 required had the two generation addition projects not been included in this filing, since as
2 discussed above each project results in an immediate net economic benefit to the
3 customers.

4 **Q. How would the Residential, Commercial, Industrial, and Lighting classes of**
5 **customers be affected if equal rates of return were applied to each class?**

6 A. Residential customers would have an increase of 11.1%, Commercial customers an
7 increase of 0.3%, Industrial customers a decrease of 2.2%, Street Lighting an increase of
8 15.8%, and Outdoor Lighting an increase of 16.5%.

9 **Q. Why would there be such a discrepancy between classes if an equal rate of return**
10 **approach were used?**

11 A. Over time different revenue growth rates and cost allocations between customer classes
12 can result in changes in the returns generated by each customer class.

13 **Q. Is Lockhart's requested adjustment based on an equal rate of return approach?**

14 A. No. Lockhart is using a modified equal rate of return approach, which better balances the
15 needs of the various customer classes. The modification is that a floor was set on the
16 amount of the adjustment to any class of 0%, i.e. no customer class was given a rate
17 decrease. This approach benefits the Residential and Lighting classes of customers by
18 mitigating the increase to those classes, while still moving all classes closer to the average
19 retail rate of return. This accomplishes the dual objectives of improving the fairness of the
20 rate structure while minimizing the impact on any single class of customers.

21 **Q. What are the resulting effects on each class of customers?**

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 A. The Residential class of customers will have an increase of 9.2%, the Commercial class
2 will have an increase of 0.3%, the Industrial class will have no adjustment, and Street and
3 Outdoor Lighting customers will have an increase of 13.0% and 13.6%, respectively. It is
4 noteworthy that despite the increases to the Residential and Lighting classes, those classes
5 will still have rates providing a return noticeably below the retail average, while the
6 Industrial class will remain noticeably above the system average. However, the magnitude
7 of the disparities between classes will be decreased compared to current rates, resulting in
8 a more equitable rate structure.

9 **Q. How was the cost of equity determined?**

10 A. Expert testimony by Paul R. Moul is included in this filing that details the approach used
11 to determine Lockhart's cost of equity. Mr. Moul also prepared cost of equity testimony
12 for the last rate case (Docket 2002-122-E), which was approved by the Commission. The
13 same methodology is used in this case, updated to reflect current economic conditions. I
14 would like to highlight the portion of his testimony that discusses the size premium
15 appropriate for Lockhart. Lockhart's size is literally several orders of magnitude below
16 that of its peer utilities, resulting in a dramatically higher level of risk, and a
17 correspondingly higher cost of equity. Were Lockhart to request the premium adjustment
18 for which it is qualified as a micro-cap sized company, its resulting cost of equity would
19 be 14.12%. In order to control costs for its customers, Lockhart has requested a lower
20 adjustment, corresponding to that appropriate for a much larger company. The result is
21 Mr. Moul's calculated 12% cost of equity.

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 **Q. What adjustment was made to the cost of equity as determined by the cost of equity**
2 **consultant?**

3 A. Lockhart has made a modest adjustment based on factors that are outside the scope of Mr.
4 Moul's analysis. This is a one half of one percent increase to recognize the recent
5 significant and tangible economic benefits afforded Lockhart's customers by virtue of
6 Lockhart's unusually customer-centric performance. This performance is exemplified by
7 the two generation addition projects described previously, and the manner in which they
8 were implemented. Both projects were implemented in an extremely expedited manner,
9 using unusually aggressive cost control measures, to enable our customers to receive
10 immediate net economic benefits from each. Lockhart's parent company agreed to forego
11 dividends for an entire year to allow this to happen, again to the benefit of our customers.
12 Lockhart is currently operating its new diesel generators for the exclusive benefit of its
13 ratepayers, while paying for fuel and other operating costs out-of-pocket. These and other
14 specific examples of Lockhart's willingness to pursue cost savings that benefit its
15 customers demonstrate that Lockhart should receive a very modest adjustment to its cost
16 of equity. The resulting cost of equity used for this filing is 12.5%.

17 This adjustment is performance-based, using actual, recent and significant cost-
18 savings to customers resulting from the Company's efforts. It is also an incentive for the
19 Company to continue to behave in this manner, to the net benefit of its customers. This is
20 important because Lockhart's five year capital outlook is for approximately 50% growth in
21 its net plant, representing significant additional potential investment. A large percentage
22 of this investment would be for projects which if performed would provide net economic

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 benefits to its customers, similar to the diesel generation and small hydroelectric plant
2 purchase projects previously discussed. The performance adjustment provides an
3 incentive to strongly consider implementing these discretionary projects, even if the
4 Company would incur non-recoverable short-term economic losses as it has with the diesel
5 generation project.

6 **Q. Do you have any requests concerning the timing of this case?**

7 A. Yes. As discussed, Lockhart has recently spent more than 10% of its total company rate
8 base on a single project to benefit its customers, despite the fact that the Company is not
9 receiving a return on that investment. In order to minimize the negative economic impact
10 to Lockhart of paying operating costs out-of-pocket and not recovering its investment
11 costs, Lockhart respectfully requests an expedited review and ruling on this proceeding.

12 **Q. Please summarize your testimony.**

13 A. Lockhart requests that the Commission approve the rate adjustment as described in
14 Lockhart's application. Lockhart has recently made significant capital investments
15 specifically to provide immediate net economic benefits to its customers. In fact, the
16 customers are already receiving economic benefits from the diesel generation peaking
17 units in the form of reduced flow-through purchased power costs, while Lockhart is paying
18 the associated fuel and other costs out-of-pocket, pending a base rate adjustment to include
19 those costs. Similarly, customers will receive immediate net economic benefits through
20 Lockhart's purchase of a small hydroelectric generation plant. In summary, after
21 operating for decades with a single generation facility, Lockhart has identified and acted

Testimony of Bryan D. Stone
Docket Number 2007-33-E

1 decisively to add two generation assets within a six month period, both of which have the
2 distinction of providing immediate net economic benefits to its customers.

3 Lockhart also requests that the Commission approve the small hydroelectric
4 generation plant purchase and the associated proposed rate treatment, contingent upon
5 receiving required regulatory approvals from FERC.

6 **Q. Does this conclude your prepared direct testimony?**

7 A. Yes.

REAL ESTATE PURCHASE AND SALE AGREEMENT

This Real Estate Purchase and Sale Agreement (this "Agreement") executed to be effective as of the 26th day of January, 2007 (the "Effective Date") by and between Milliken & Company ("Seller") and Lockhart Power Company ("Buyer").

WITNESSETH:

1. Defined Terms

1.1 Each of the following terms, when used in this Agreement, shall have the meaning ascribed to each such term in this Section 1.1. All other capitalized terms not defined in this Section 1.1 shall have the meanings otherwise given in this Agreement.

1.1.1 "Closing". The consummation of the transaction contemplated by this Agreement.

1.1.2 "Closing Date". Closing shall occur on the date all of the conditions set forth in Section 4.5 are satisfied and simultaneous with the effective date of the consumer retail rates, as approved by the South Carolina Public Service Commission, providing for the recovery of the Purchase Price.

1.1.3 "Intangible Personal Property". The items described in Section 2.3 below.

1.1.4 "Property". The items described in Section 2 below and consisting of the Real Property, the Tangible Personal Property and the Intangible Personal Property.

1.1.5 "Real Property". The real property described on the attached Exhibit A and depicted on the plat attached hereto as Exhibit E, and denoted on such plat as parcel B, and all improvements, fixtures, appurtenances, and other items of real property located thereon.

1.1.6 "Tangible Personal Property". The items described in Section 2.2 below.

1.1.7 "Title Insurer". Lawyers Title Insurance Corporation, or its successor-in-interest, or another national title insurance company, acceptable to Buyer and Seller.

2. Sale of Assets; Easements

2.1 Real Property. Seller agrees to sell and Buyer agrees to purchase, pursuant to the provisions of this Agreement, the Real Property, subject to the reservation by Seller of all rights to mine sand and gravel from the river that is located on the Real Property consistent with any requirements imposed by the Federal Energy Regulatory Commission ("FERC") under Part I of the Federal Power Act.

2.2 Tangible Personal Property. Seller agrees to sell and Buyer agrees to purchase, pursuant to the provisions of this Agreement, all equipment, machinery, tools and other personal property owned by Seller located on, within, over or under the Real Property, including, but not limited to,

all such property set forth on Exhibit B (the "Tangible Personal Property") on an "AS IS, WHERE IS" basis.

2.3 Intangible Personal Property. Seller agrees to sell and Buyer agrees to purchase, pursuant to the provisions of this Agreement and any requirements of law, all of Seller's right, title and interest in and to (i) the plans and specifications with respect to the Real Property, (ii) any assignable guarantees, warranties, or other rights related to the ownership of or use and operation of the Real Property and the Tangible Personal Property, and (iii) all assignable governmental licenses, certifications and permits associated with the Real Property and the Tangible Personal Property, including the License, as defined below.

2.4 Easements. At Closing, Seller agrees to grant Buyer a non-exclusive perpetual easement in and over a portion of Seller's adjacent property described on Exhibit C and shown as "Easement for Ingress and Egress" on Exhibit E attached hereto for ingress and egress by Buyer, its successors, assigns, successors in interest and anyone claiming by, through or under Buyer, and their respective employees, agents and invitees (the "Buyer Parties") to provide the Buyer Parties with access to the Real Property and the power transmission lines serving or benefiting the Real Property.

2.5 Easement for Riparian Rights. At Closing, Seller agrees to grant Buyer for the benefits of the Buyer Parties a non-exclusive easement for access to, flow of and use of Seller's riparian rights in and to the Pacolet River and associated reservoir necessary for the Buyer Parties to operate and maintain a hydro-electric generation facility located on the Real Property which riparian easement rights shall be subject to the terms and conditions of all licenses, permits and approvals obtained by Buyer Parties to operate and maintain such a facility and to use it in accordance with all laws, rules, regulations and ordinances governing the use, operation and maintenance of such a facility.

2.6 Intent as Related to Project. The parties hereby acknowledge and agree that the intent of Section 2.1 through 2.5 of this Agreement is to transfer, at a minimum, to the Buyer all of the property, assets and other rights associated with and a requirement for that certain minor project license for the Pacolet Project, No. 2621 (the "License").

3. Purchase Price

The purchase price to be paid by Buyer to Seller for the Real Property, the Tangible Personal Property and Intangible Personal Property is Three Hundred Fifty Thousand and No/100 Dollars (\$350,000.00) (the "Purchase Price"). The Purchase Price shall be paid at Closing to Seller.

4. Closing

The sale contemplated by this Agreement shall be consummated as follows:

4.1 Closing Date. The Closing shall be held and consummated on the Closing Date.

4.2 Seller's Instruments. Upon and effective simultaneously with Closing, the Seller shall deliver or cause to be delivered to Buyer the following items, duly executed and, to the extent appropriate, acknowledged:

4.2.1 Deeds. A Limited Warranty Deed effective to convey to Buyer good and marketable title to the Real Property.

4.2.2 Bills of Sale. A general assignment and bill of sale in a form reasonably acceptable to Buyer conveying to Buyer all of Seller's right, title and interest in the Tangible Personal Property and Intangible Personal Property to be transferred to Buyer as described in Sections 2.2 and 2.3 above.

4.2.3 Easements. The easements in a form reasonably acceptable to Buyer conveying to Buyer the easements rights described in Sections 2.4 and 2.5 above.

4.2.4 Warranties and Guarantees. Assignments of all assignable warranties and guaranties affecting any portion of the Property, together with the originals of such warranties and guaranties, to the extent in Seller's possession.

4.2.5 Title Insurance Policy. Any and all documents necessary for Buyer to obtain an owner's extended coverage-policy of title insurance (ALTA) issued by the Title Insurer insuring that marketable fee simple title to the Real Property is vested in Buyer.

4.2.6 Additional Documents. Such additional documents as may be reasonably required by the Buyer to consummate the Closing.

4.3 Consideration at Closing. At Closing, Buyer shall deliver to Seller the Purchase Price.

4.4 Closing Costs. At Closing, Buyer shall pay the following costs: all costs associated with obtaining the necessary approvals from governmental agencies. At Closing, Seller shall pay the following costs: all costs associated with the Closing not paid by Buyer as provided in the preceding sentence, including, but not limited to, the cost of the transfer taxes or fees relating to the transfer of the Property to the Buyer, Buyer's and Seller's attorneys' fees, recording costs, survey costs, and all costs paid in arrears.

4.5 Contingencies. The obligation to close the sale and purchase transaction contemplated by this Agreement are binding on the parties hereto, subject to satisfaction of the conditions set forth in this Section 4.5, which conditions are legal requirements and outside of the control of either party. Upon satisfaction of all the conditions set forth in this Section 4.5, the Closing of the transaction contemplated by this Agreement shall immediately commence. If the conditions are not satisfied, this Agreement shall terminate, including the purchase option: In the event any condition cannot be satisfied as specified herein, the parties agree to work together in good faith to evaluate any modifications to the conditions to determine if satisfaction of such modified condition would be acceptable and, if so, the Closing can proceed upon satisfaction of the modified condition. The contingent conditions to Closing are as follows:

4.5.1 The unconditional approval of transfer of the License by FERC and receipt of all other required approvals from FERC.

4.5.2 The unconditional approval of the transaction by the South Carolina Public Service Commission ("PSC").

4.5.3 Any and all other approvals or permits from any governmental entity as may be required.

4.5.4 Allowance by the PSC and FERC for full recovery of the Purchase Price in the appropriate wholesale and retail rate schedules, as applicable.

Buyer shall use its best efforts to see that the conditions set forth in this Section 4.5 are satisfied. Seller agrees to provide Buyer with all reasonable support and assistance in Buyer's efforts hereunder.

5. Mutual Environmental Indemnity

Notwithstanding anything to the contrary, Seller agrees to indemnify and hold Buyer harmless from and defend Buyer against all claims, liabilities, damages, costs and expenses (including reasonable attorneys' fees) in connection with (i) asbestos, hazardous wastes or toxic substances placed upon the Property prior to the Closing, or (ii) contamination of the Property as a result of placement, before or after the Closing, of any asbestos, hazardous wastes or toxic substances on any real property adjacent to the Property that results in the contamination the Property. Buyer agrees to indemnify and hold Seller harmless from and defend Seller against all claims, liabilities, damages, costs and expenses (including reasonable attorney's fees) in connection with asbestos, hazardous wastes or toxic substances placed upon the Property from and after the Closing.

6. Option

Buyer shall have and is hereby granted the right and option to purchase the real property specified on Exhibit D and depicted on the plat attached hereto as Exhibit E, and denoted on such plat as parcel A, and any and all improvements, fixtures, appurtenances, and other items of real property located thereon (the "Option Property") from Seller. Such option to purchase the Option Property shall be exercisable by Buyer at any time prior to the five year anniversary of the Closing Date. Buyer shall exercise this option, if at all, by giving written notice of such exercise to Seller. The purchase price for the Option Property shall be One Hundred Dollars (\$100.00). The closing of the purchase of the Option Property shall be consummated within sixty (60) days after Buyer provides Seller written notice of Buyer's election to exercise its option to purchase the Option Property. At such closing, Seller shall convey good and marketable fee simple title to the Option Property to Buyer by Limited Warranty Deed and shall grant all easements, including but not limited to easements for access and riparian rights, as may be necessary for Buyer to use such Option Property as the site of a hydro-electric generation facility.

7. Termination of Current Agreement

The Buyer and Seller are parties to that certain Electric Energy Purchase Agreement dated October 1, 1980 as amended by the certain Addendum dated January 1, 2006 (the "Purchase Agreement"). The parties hereby agree, and waiving any obligations of notice otherwise, that the Purchase Agreement shall terminate 12:01 A.M on the Closing Date and that neither party shall have any further obligations or rights under the Purchase Agreement from and after the point of termination.

[SIGNATURES BEGIN ON NEXT PAGE]

The parties hereto have executed this Real Estate Purchase and Sale Agreement effective as of the date first above written.

SELLER:

Milliken & Company

By: G. Ashley Allen
Its: President + Chief Executive Officer

BUYER:

Lockhart Power Company

By: Mary S. Simon
Its: President, Lockhart Power

EXHIBIT A

DESCRIPTION OF REAL PROPERTY

BEGINNING AT GPS CONTROL POINT 1, AS SHOWN ON PLAT FOR LOCKHART POWER, BY GOOCH & ASSOCIATES, P.A. DATED DECEMBER 11, 2006, AND RUNNING THENCE WITH TIELINE, S. 79-41'-03" E., 1546.15 FEET TO A ½" RE-BAR SET, LABELED THE POINT OF BEGINNING. THENCE RUNNING N. 34-18'-37" W., 238.98 FEET TO A ½" RE-BAR SET; THENCE N. 54-56'-46" E., 64.50 FEET TO A POINT ON FACE OF WALL; THENCE S. 35-03'-14" E., 243.79 FEET TO A POINT ON FACE OF WALL; THENCE S. 59-01'-53" W., 67.77 FEET TO THE POINT OF BEGINNING. SAID LOT B CONTAINS 0.37 ACRE.

AND

DAM, INCLUDING ALL FLASHBOARDS, SPANNING THE PACOLET RIVER AS SHOWN ON PLAT FOR LOCKHART POWER, BY GOOCH & ASSOCIATES, P.A. DATED DEC. 11, 2006 AND ADJOINING THE ABOVE DESCRIBED REAL PROPERTY AT THE 198 DESIGNATION.

AND

THE TAIL RACE WING WALL ADJOINING ABOVE DESCRIBED PROPERTY AT OR NEAR THE 199 DESIGNATION.

EXHIBIT B

Tangible Personal Property

HYDRO

Cordless Phone
Security Camera
Push Broom
Regular Broom
Table
Desk
File Cabinet
Rechargeable Flash Light
Dust Pan
Trash Can

Soap Dispenser
Clock
Mirror
First Aid Kit
Regular Phone
Bell
Fan
2 HPU Units
2 Exciters
Computer
UPS
Computer Stand
2 Gen. Breakers
PLC
Main Breaker
2 Rubber Mats
Exciter Motor
Emergency Lights
Barrel w/Wood Bearing Blocks
Oil Can
Oil Rags
Windex
Books
Knife Blade Disconnects
2 Generators
Duster
Mop & Bucket
3 Disconnect Switches
2 DMMS Alarm Meters
Computer Monitor
1 Chair
DSL Modem
Linksys Router
Messinger 600

PARTS BUILDING

60 Boards
Collector Rings Brushes
Hydraulic Oil
2 Cranks
Wheel Packing
Assorted Nuts and Bolts
Brake Links
Pins
Alum. Scaffold
Rope

2 Bags Cement
2 Fluorescent lights
Fluorescent Bulbs
Regular Bulbs
Small Grinder

FOREBAY

Trashrake Control Box
Trashrake Controls
Trashrake
Trashrake Motor
3 Drain Gates
Security Camera
Hand Rake
Push Pole
Head Gates

EXHIBIT C

DESCRIPTION OF ACCESS EASEMENT

BEGINNING AT A POINT LABELED AS THE POINT OF BEGINNING OF LOT B, AS SHOWN ON PLAT FOR LOCKHART POWER, BY GOOCH & ASSOCIATES, P.A. DATED DEC. 11, 2006, AND RUNNING THENCE N. 34-18'-37" W., 128.39 FEET TO A POINT IN CENTER OF OLD ACCESS ROAD; THENCE WITH THE CENTER OF SAID ROAD S. 76-56'-02" W., 39.32 FEET TO A POINT; THENCE WITH SAID ROAD, N. 77-52'-36" W., 21.14 FEET TO A POINT; THENCE WITH ROAD N. 47-38'-46" W., 23.64 FEET TO A POINT; THENCE WITH ROAD N. 33-51'-07" W., 63.80 FEET TO A POINT; THENCE WITH ROAD 29-27'-37" W., 59.18 FEET TO A POINT; THENCE WITH ROAD N. 25-18'-40" W., 87.34 FEET TO A POINT; THENCE WITH ROAD N. 26-26'-36" W., 70.70 FEET TO A POINT; THENCE WITH ROAD N. 32-31'-33" W., 48.72 FEET TO A POINT; THENCE WITH ROAD N. 37-44'-47" W., 58.02 FEET TO A POINT; THENCE WITH ROAD N. 39-37'-41" W., 53.98 FEET TO A POINT; THENCE WITH ROAD N. 43-12'-39" W., 36.86 FEET TO A POINT; THENCE WITH ROAD N. 55-09'-12" W., 37.76 FEET TO A POINT; THENCE WITH ROAD N. 65-55'-35" W., 59.66 FEET TO A POINT; THENCE WITH ROAD N. 69-20'-28" W., 51.25 FEET TO A POINT; THENCE WITH ROAD N. 72-50'-41" W., 60.03 FEET TO A POINT; THENCE WITH ROAD N. 74-50'-58" W., 57.42 FEET TO A POINT; THENCE WITH ROAD N. 77-19'-59" W., 52.25 FEET TO A POINT; THENCE WITH ROAD N. 82-03'-30" W., 42.43 FEET TO A POINT; THENCE WITH ROAD N. 87-06'-50" W., 44.67 FEET TO A POINT; THENCE WITH ROAD N. 87-48'-00" W., 84.83 FEET TO A POINT; THENCE WITH ROAD S. 87-36'-06" W., 45.93 FEET TO A POINT; THENCE WITH ROAD S. 77-46'-47" W., 61.61 FEET TO A POINT; THENCE WITH ROAD S. 60-29'-47" W., 129.81 FEET TO A POINT; THENCE WITH ROAD S. 55-23'-14" W., 47.20 FEET TO A POINT; THENCE WITH ROAD S. 47-34'-06" W., 55.19 FEET TO A POINT ON THE EDGE OF PAVEMENT OF S.C. HIGHWAY NO. 150. SAID POINT BEING LOCATED N. 57-56'-00" E., 413.28 FEET FROM GPS CONTROL POINT 1.

EXHIBIT D

DESCRIPTION OF OPTION PROPERTY

BEGINNING AT GPS CONTROL POINT 1, AS SHOWN ON PLAT FOR LOCKHART POWER, BY GOOCH & ASSOCIATES, P.A. DATED DEC. 11, 2006, AND RUNNING THENCE WITH TIELINE, N. 66-18'-40" W., 623.46 FEET TO A POINT LABELED THE POINT OF BEGINNING. THENCE RUNNING N. 84-40'-00" W., 366.34 FEET TO A POINT; THENCE N. 04-48'-09" E., 47.44 FEET TO A POINT ON FACE OF WALL; THENCE S. 85-08'-42" E., 366.33 FEET TO A POINT ON FACE OF WALL; THENCE S. 04-48'-09" W. 50.50 FEET TO THE POINT OF BEGINNING. SAID LOT A CONTAINS 0.41 ACRE.

AND

DAM SPANNING THE PACOLET RIVER AS SHOWN ON PLAT FOR LOCKHART POWER, BY GOOCH & ASSOCIATES, P.A. DATED DEC. 11, 2006 AND ADJOINING THE ABOVE DESCRIBED REAL PROPERTY AT THE 178 DESIGNATION.

AND

THE TAIL RACE WING WALL ADJOINING ABOVE DESCRIBED PROPERTY AT OR NEAR THE 155 DESIGNATION.

EXHIBIT BDS-1

PAGE 11 OF 11

EXHIBIT E

PLAT

See attached.

